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TO : THE DEPARTMENT OF STATE, WASHINGTON

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DATE

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SUBJECT: Preliminary Analysis of Gross National Product in Draft Economic Plan for 1953.

INTRODUCTION

An unofficial translation of the draft economic plan for 1953, published by the Yugoslav Government, was transmitted under cover of Belgrade's despatch 344 of November 6, 1952, together with the Mission's explanation of the terms and form of the plan. The analysis of the content of the 1953 draft, presented below, is intended to supplement the material in despatch 344.

SUMMARY

Applying methods already used in adapting figures in the 1952 economic plan to the western concepts of gross national product and its use¹, it is possible to make the following rough comparisons between GNP in the 1952 and 1953 plans: ²

The share of defense in the distribution of total availabilities has declined from 16.9 percent in the 1952 plan to 15.5 percent in the 1953 plan. At the same time, personal consumption remains at roughly the same level (51.3%) while the share of investment has risen from 22.9 percent in the 1952 plan to 24.0 percent in the 1953 plan. Part of these changes result from changing (lower) prices. However, from the published information available, it appears that price reductions

¹ See "Report on Calculation of Gross National Product in Yugoslavia" September 16, 1952, prepared by Dr. Paul Herberg for MSA.

² In view of the drought in the summer of 1952, the planned GNP in 1952 represents a more valid basis of comparison with the 1953 expectations than estimated actuals for 1952, which in any case are not available. For this reason the plan for 1953 is compared to the plan for 1952.

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were primarily in consumer goods and services. Therefore, a picture of volume development of GNP in the two plans would probably show consumption's share as slightly greater than the above figures indicate, a further decline in defense's share and approximately the same result for investment.

These comparisons are based on assumptions and estimates made by the Mission and not yet verified by Yugoslav officials. Therefore, they must be considered with great caution. Moreover, the estimates for 1953 are taken from the draft 1953 plan which may be considerably revised before being presented to the People's Assembly at the end of the year. A further factor to be borne in mind is the item in the text of the draft plan (Despatch 344, Enclosure No. 1, third page) which authorizes the government to reduce investment expenditures if the "deficit" in the plan (see below) cannot be financed.

Prices

BACKGROUND

In the 1952 plan (final version, published in April, 1952) so-called "new economic prices" were used. These were late 1951 prices as set by the government prior to the decontrolling of all prices in the spring of 1952. According to a published article by a member of the Federal Planning Commission (transmitted under cover of despatch 344), the prices used in the 1953 plan were significantly lower for several economic branches, (see below). This decline in the level of prices, particularly of consumer goods and of services, was a result of the lowering of the rates of accumulation during the summer (Belgrade despatch 167, September 9, 1952). In addition, because of changing relations between domestic and world market prices, the "net price difference in foreign trade" was considerably reduced. (1) The total reduction in the value of goods and services included in the 1953 plan was estimated by Medenica at 56 billion dinars (2).

Volume of Production

The value of gross national product (excluding "non-productive" services) in the 1953 plan amounts to 979,466 million dinars as compared to 1,004,350 in the 1952 plan. However, if the price reduction of 56 billion dinars is added to the 1953 figure (giving a total of 1,035,497 million dinars) one can get a rough idea of the volume increase in production over the planned level in 1952 (about 3%).

Applying the price reductions given by Medenica for each branch to the value figures for each branch in the 1953 plan (Table I) it can be seen that the volume increase in the level of production is almost entirely in Industry and Mining while Agriculture shows a slight decline and "Other" branches remain roughly constant.

(1) Represents net dinar revenue of govt derived from application of system of "coefficients". For a complete explanation, see Herbergs report

(2) 300 dinars equals 1 dollar at official exchange rate.

Total Gross National Product

As explained in despatch 344, certain services which are considered "non-productive" are not included in the Yugoslav economic plans. If the value of "non-productive" services in 1953 is assumed to be slightly higher than in the 1952 estimates (1) then total GNP (at market prices) for 1953 amounts to 1,099,841 million dinars as compared with 1,118,735 in the 1952 plan.

Additional Availabilities

The deficit or "negative difference" between "national income" distributed and planned production of "national income" in fact represents an addition to expected availabilities from planned GNP (see Belgrade despatch 344).

In the 1952 Plan the additional resources were to^{be} provided by surpassing planned production goals and by an import surplus which together would increase availabilities by 56.8 billion dinars. Furthermore, an estimated 9 billion dinars worth of capital equipment imported against previous loans brought the total to 65.8 billion dinars.

In the 1953 plan, the additional availabilities amount to 51.6 billion dinars. Published commentaries on the plan reveal that estimated capital equipment imports against previous loans of 11.7 billion dinars are included in the 51.6 billion dinars. Thus, the total deficit in the 1953 plan (51.6) is 14.2 dinars smaller than the deficit in the 1952 plan (65.8).

Total Availabilities

Planned GNP at market prices (including "non-productive services") plus "additional availabilities" gives total availabilities in 1952 of 1,184,735 million dinars. Assuming the value of "non-productive" services to be slightly higher in 1953 (see above), the 1953 draft shows total availabilities of 1,161,531 million dinars, representing a decline in value of 23,304 million dinars.

Use of Availabilities

On the basis of certain working assumptions, some extremely tentative comparisons can be made between the planned use of availabilities in the two years. Although it is not possible to go into detail here concerning these assumptions, the most important among them are the following:

/1 In 1952 non-productive services were estimated at 114,375 million dinars of which rent was 11,300 million. Assuming that "services paid by government" will go down slightly and since rents have been doubled, we have taken 120,375 as an estimate of non-productive services in 1953.

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(1) From published commentary, it appears that in drawing up the draft 1953 plan the Yugoslav planners have assumed that the amount of food which will be consumed on the farms will decline slightly while the amount of market surplus will increase correspondingly. /1

(2) It was assumed that government subsidies to personal consumption would be reduced in view of contemplated budgetary savings.

(3) An amount equivalent to net product from rents in 1952 was added to "Replacement" in the sector of "Gross Investment", since rents have recently been doubled and the government has announced that the additional revenue will be placed in a special maintenance fund.

(4) It was assumed that inventories would decline by an amount equivalent to their planned increase in 1952 (6 billion dinars).

On the basis of these and other less important assumptions, the following comparison of use of availabilities can be derived:

	<u>1952 /2</u>		<u>1953</u>	
	Amount	%	Amount	%
I Personal Consumption	603,350	51.0	595,625	51.3
II Gross Investment	271,890	22.9	278,461	24.0
III Government Consumption	309,495	26.1	283,124	24.4
of which: (1) non-military	(109,495)	(9.2)	(103,124)	(8.9)
(2) military	(200,000)	(16.9)	(180,000)	(15.5)
IV Errors and Omissions	-----	---	4,221	0.3
V Total Availabilities	1,184,735	100	1,161,431	100

Comments

It must be emphasized that the foregoing comparative analysis, particularly on the use of availabilities, is based on assumptions which are subject to a wide margin of error. Since, in effect they are assumptions concerning what assumptions were made by Yugoslav planning officials, they can be verified only by extensive consultation with these officials. However, with this in mind, it is possible to make certain tentative observations which are of considerable interest.

/1 Value of food consumed on farms as estimated by Yugoslav officials: In 1952 - 200,000 million dinars. For 1953, assumed 180,000 million dinars. The Mission believes that at least an equal amount of food will be consumed on the farms in 1953. However, we have used the Yugoslav estimate as reflecting their planning assumptions.

/2 Taken from Herberg's Report, p. 12.

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First, while the market value of GNP in 1953 is planned at a lower level than in the 1952 plan, the volume development is slightly upward, primarily as a result of increased industrial capacities.

Second, the share of defense in the planned use of availabilities has declined relative to 1952, while the share of personal consumption has remained roughly the same and the share of investment has increased.

Third, the price changes which account for the decline in value of GNP are primarily changes in goods and services for personal consumption (see Medenica article, Enclosure No. 2 to despatch 344). Thus a rough adjustment to the prices in the 1952 plan would quantitatively increase personal consumption without increasing defense. It can be deduced therefore, that in constant prices, the share of defense in the use of availabilities would be even lower than in current prices while that of personal consumption would be higher. To what extent the share of investment would be effected, it is impossible to estimate.

For the Ambassador,



James S. Killen,
Counselor for Economic Affairs.

Enclosure: (1) Table on Comparative Data
on the Formation of the GNP.

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COMPARATIVE DATA

on the Formation of the GNP

(1952 (plan*) and 1953 (draft plan))

	<u>1952</u>	<u>1953</u>	<u>1952</u>	<u>1953</u>	<u>1952</u>	<u>1953</u>
	<u>Gross Product</u>		<u>Depreciation</u>		<u>Net Product</u>	
Industry & Mining	398,759	441,437	40,227	48,393	358,532	393,044
Agriculture	326,652	322,534	9,741	9,829	316,911	312,705
Other	229,816	205,495	44,651	43,232	185,165	162,263
Sub-total	955,227	969,466	94,619	101,454	860,608	868,012
Interest	12,500	**			12,500	
Difference in prices in foreign trade	36,633	10,000			36,633	10,000
TOTAL	<u>1,004,350</u>	<u>979,466</u>	<u>94,619</u>	<u>101,454</u>	<u>909,741</u>	<u>878,012</u>

* GNP in final 1952 plan, not corrected for drought or price changes.
 ** Included within each branch.